Arizona State Senate
Issue Brief

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**Note to Reader**:

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# *ARIZONA STATE EMPLOYEE RETIREMENT*

### *ARIZONA STATE RETIREMENT SYSTEM*

In 1953, the Arizona State Retirement System (ASRS) was created to provide retirement and other benefits for state employees, including university faculty and employees of the state's political subdivisions who signed a membership contract. Active teachers voted to join ASRS in 1954 and transferred to ASRS on January 1, 1955.

ASRS now encompasses the state, including the 3 state universities, all 10 community colleges, 14 counties with the 15th in the process of joining, most cities and towns, most school districts and other political subdivisions.

Effective July 1, 1971, the current ASRS defined benefit plan replaced the defined contribution plan. A "defined benefit plan" provides a fixed monthly benefit upon retirement, determined by a formula. The benefit formula is the employee's length of service under ASRS multiplied by a percentage of the average monthly amount of earnings or compensation.

**(Total Credited Service x Multiplier x Average Monthly Compensation = Defined Benefit)**

ASRS is a cost sharing retirement plan, meaning that the employee and the employer contribute to the member's retirement at an equal percentage of the employee's pay, which must be at least two percent of employees' compensation. Laws 2005, Chapter 331, changes the retirement contribution rate from being set biennially to annually, beginning FY 2007-2008. ASRS Fund monies consist of member and employer contributions as well as investment income and monies and other assets generated by the operation of the retirement plan.

ASRS normal retirement is the earliest age at which a member is first eligible to receive a full retirement benefit as calculated by the ASRS benefit formula. A member reaches normal retirement at age 65, if the member is at least 62 years of age and has at least ten years of credited service or when the member's age and years of credited service add up to 80.

Graded multiplier is the percentage set by the Legislature and used in the ASRS retirement benefit formula to determine the member's monthly retirement annuity. The graded multiplier begins at 2.1 percent for members with less than 15 years of service and increases as follows:

- 2.15 percent if the member has = 20 < 25 years of credited service.
- 2.20 percent if the member has = 25 < 30 years of credited service.
- 2.3 percent if the member has = 30+ years of credited service.

***PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM***

The Public Safety Personnel Retirement System (PSPRS) is a retirement system created by the Legislature in 1968 to provide a uniform, consistent and equitable statewide retirement program for certain public safety personnel and full-time firefighters who are regularly assigned to hazardous duty of the type expected of peace officers or firefighters.

PSPRS is a defined benefit plan. PSPRS Fund monies consist of member and employer contributions as well as investment income and monies and other assets generated by the operation of the retirement plan.

Under PSPRS, the employee contribution rate is fixed by statute at 7.65 percent of salary on pretax basis. The employer contribution rates are different for each employer in the system and change every fiscal year, based upon an actuarial valuation. If investment returns are better than expected or if benefit payments are lower than expected, the employer rate will generally decrease. Conversely, if investment returns are not as good as expected or if more benefits are paid than expected, the employer rate will generally increase. Laws 2005, Chapter 208, set the minimum employer contribution rate at five percent of the employee's salary.

PSPRS normal retirement is the first day of the calendar month following a member's completion of 20 years of service or, if the member is still working, the member's 62nd birthday if the member has at least 15 years of service. Pension amounts are determined as follows:

- 50 percent of average monthly compensation for the first 20 years, plus 2 percent of average monthly compensation for each credited service year between 20 and 25. The pension is reduced by 4 percent per year for each credited service year under 20 years.

- 50 percent of average monthly compensation for the first 20 years of service, plus 2.5 percent of average monthly compensation for each year above 20 years up to a maximum of 80 percent of average monthly compensation for members retiring with more than 25 years of service.

***CORRECTIONS OFFICER RETIREMENT PLAN***

The Corrections Officer Retirement Plan (CORP) is a defined benefit retirement plan created in 1986 for certain full-time state and county detention officers. CORP provides a uniform, consistent and equitable statewide retirement program to these correctional officers and is designed to meet the special needs of personnel engaged in the prison environment. Correctional officers employed by the Arizona Department of Corrections (ADC) or youth correctional officers employed by the Arizona Department of Juvenile Corrections (ADJC), and certain other designated positions within ADC or ADJC, and many county detention officers are members of CORP. The counties of Gila, Graham, Greenlee, La Paz and Pinal have not joined CORP.

CORP Fund monies consist of member and employer contributions as well as investment income and monies and other assets generated by the operation of the retirement plan. The employee contribution rate is fixed by statute at 8.50 percent of salary on a pretax basis. The employer contribution rate is different for each employer and changes every fiscal year, based upon an actuarial valuation. If investment returns are better than expected or if benefit payments are lower than expected, the employer rate will generally decrease. Conversely, if investment returns are not as good as expected or if more benefits are paid than expected, the employer rate will generally increase. Laws

2005, Chapter 208, set the minimum employer contribution rate at five percent of the employee's salary.

CORP normal retirement is the first day of the calendar month following a member's completion of 20 years of service, the date at which the member attains age 62 with ten or more years of service or when the sum of the member's age and years of credited service equals at least 80. Pension payments begin on the last day of the retirement month.

A member's monthly pension amount is determined as follows:

**(Total Credited Service x 2.5 x Average Monthly Compensation = Defined Benefit)**

### *ELECTED OFFICIALS' RETIREMENT PLAN*

The Elected Officials' Retirement Plan (EORP) was established in 1985 to provide a uniform, consistent and equitable statewide program for eligible elected officials. All elected officials are members of EORP. Elected official means every elected official of this state, every elected official of each county of this state, every justice of the Supreme Court, every judge of the court of appeals, every judge of the superior court, every full-time superior court commissioner, the administrator of the EORP Fund if the administrator is a natural person and each elected official of an incorporated city or town whose employer has executed a proper joinder agreement for coverage of its elected officials. A state elected official who is subject to term limits may elect not to participate for that specific term of office.

EORP Fund monies consist of member and employer contributions as well as investment income and monies and other assets generated by the operation of the retirement plan. The EORP Fund receives a percentage of monies collected from Supreme Court, court of appeals and superior court fees, as provided by statute. These monies are used to reduce the contributions required of state and county employers. This means that although EORP is an employer sharing plan, state and county employers pay a lower contribution than city and town employers.

Each EORP member must contribute seven percent of his or her salary on a pretax basis. Each employer must contribute the following:

- for state and county employers, a designated portion of certain fees collected by the clerks of the superior court, the court of appeals and the Supreme Court, plus additional contributions as determined by actuarial valuation to ensure proper funding, but not less than five percent of salary.
- for incorporated city or town employers, a level percent of salary as determined by actuarial valuation to ensure proper funding, but not less than five percent of salary.

An elected official reaches normal retirement upon meeting one of the following age and service requirements:

- age 65, with five or more years of credited service.
- age 62, with ten or more years of credited service.
- 20 or more years of credited service regardless of age.

A member's monthly pension amount is determined as follows:

**(Total Credited Service x 4% of Average Monthly Compensation = Defined Benefit)**

The maximum defined benefit cannot exceed 80 percent of the member's average yearly salary.

### *DEFERRED RETIREMENT OPTION PLAN*

The Deferred Retirement Option Plan (DROP) enables PSPRS members to accumulate a lump sum payment upon termination of employment. To receive this payment, the participant, in lieu of taking retirement, places his or her monthly pension payment into a DROP account that also earns or is credited with a fixed interest rate while the participant continues working. In exchange, the participant ceases to accrue credited years of service or benefit increases based on salary raises during this period of time. Upon termination of employment, the participant starts receiving monthly pension payments along with the lump sum payment from the DROP account.

Laws 2005, Chapter 258, establishes a reverse deferred retirement option plan (reverse DROP) for PSPRS members through July 1, 2010. Eligibility in the reverse DROP is limited to those members who are eligible for normal retirement and have not elected to participate in the PSPRS DROP. Reverse DROP participants must designate a reverse DROP date; this date the member terminates employment and begins receiving retirement benefits, including a lump sum payment. The lump sum is computed as a normal retirement benefit in effect on the reverse DROP date and the amount credited as though accrued monthly that represents interest at a rate of three and one-half percent. The reverse DROP period is limited to a period of a maximum of 60 months prior to the date the member elects to participate in the program.

Laws 2006, Chapter 241, establishes a reverse DROP for members of CORP. Eligibility in the CORP reverse DROP is limited to employees with a minimum of 24 years of service.

### *RETURN TO WORK*

Laws 1970, Chapter 134, originally authorized return to work after retirement program for members of ASRS. Laws 2000, Chapter 132, established a pilot program that allowed retired teachers to return to work if they have attained normal retirement age, they have terminated employment at least one year before returning to work, their employment is not subject to dismissal due process protections and they acknowledge in writing the terms and conditions of retired reemployment.

Laws 2001, Chapter 68, expanded the pilot return to work program initially established only for teachers to include all members of ASRS. ASRS members may choose between the temporary return to work program and the original return to work program, which allows retired members to return to work, provided that the member does not work 20 or more hours a week. Under either option, an employer of a retired member who returns to work does not pay contributions on behalf of the retired member, nor does the member who returns to work under these provisions accrue credited service, retirement benefits or long-term disability program benefits for the period the retired member returns to work.

Currently, any retired member of ASRS can return to work and still be eligible to receive retirement benefits if all of the following requirements are satisfied:

- the retired member has attained the member's normal retirement age.
- the retired member terminated employment at least 12 months before returning to work.
- if the retired member returns to work as a teacher, the retired member must work as a certificated teacher.
- if the member returns to work as a teacher, the retired member's employment is not subject to the requirements prescribed regarding permanent employment.

Laws 2006, Chapter 241, allows members of CORP, who retired prior to January 1, 2006, to be reemployed by a CORP-participating employer and continue to receive pension benefits. Reemployment must occur at least 90 days after retirement and is required to involve substantial direct inmate contact.

### *ADDITIONAL RESOURCES*

- Arizona State Retirement System<br>3300 N. Central<br>Phoenix, AZ 85012<br>602-240-2000<br>520-239-3100<br>1-800-621-3778<br>[www.asrs.state.az.us](http://www.asrs.state.az.us)
- PSPRS/CORP/EORP<br>3010 E. Camelback Rd.<br>Suite 200<br>Phoenix, AZ 85016<br>602-255-5575<br>[www.psprs.com](http://www.psprs.com)